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TO RUEHC/SECSTATE WASHDC IMMEDIATE 4004  
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RUCPDO/DEPT OF COMMERCE WASHDC  
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STATE PLEASE PASS TO USTR KATE DUCKWORTH  
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS  
TREASURY FOR SSENICH  
COMMERCE FOR KMANN

SIPDIS  
SENSITIVE

E.O. 12958: N/A  
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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS WEEK OF NOVEMBER 24

REFS: SANTIAGO 1024 AND PREVIOUS

1. (SBU) SUMMARY: This continues a series of regular updates on major developments in Chile's economy since the acceleration of global financial turmoil. By week's end, November 28, copper prices hit a three-year low and the exchange rate and stock market recovered some lost ground. Chile's state copper commission forecast a sharp price drop in 2009. The Chilean economy grew 4.8% in the third quarter, but the OECD cut its prediction for Chile's growth to 2.6% in 2009. Industrial production and the unemployment rate fell in October. The GOC will spend \$120 million on a rescue package for the salmon industry. The Central Bank provided another \$200 million in liquidity. Contacts at CorpBanca report a relatively healthy banking industry. END SUMMARY.

#### Copper Prices Hit Lowest Point in Three Years

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2. (U) On the London Metals Exchange, copper closed at \$1.32/pound on November 28, down almost 16% from its close on November 21. The average copper price in November, \$1.66/pound, is the lowest in three years.

3. (U) Chile's state copper commission (Cochilco) forecast a sharp drop in copper prices for 2009. Next year's average price for copper is expected to be \$1.60/pound (down significantly from the previous forecast of \$3.40/pound). A decrease in demand and increasing copper stocks are the two principal causes for the drop. Cochilco predicts Chile will produce 5.57 million tons of copper in 2009 (less than the 5.8 million previously forecast).

#### Chilean Peso Recovers Slightly Against Dollar

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4. (U) On November 28, the exchange rate closed up at 660.5 Chilean Pesos to 1 U.S. Dollar (an appreciation of 3% from the close on November 21). However, the Peso has depreciated 24.7% for the year so far.

#### The Stock Market Closes Up Slightly

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5. (U) The IPSA closed at 2407.75 points on November 28, up almost 2% on the close of November 21. The index lost 3.28% of its value during the month of November.

#### Growth in 3rd Quarter, OECD Sees Slower 2009

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¶6. (U) On November 24, the Central Bank reported Chile's GDP grew by 4.8% in the third quarter (July-September). This growth was led by an expansion in utilities, construction, and the communications industry. Internal demand rose to 11.5%. The Bank revised upward second quarter growth from 4.3% to 4.5%. Meanwhile, the OECD revised downward many of its growth forecasts for various economies, including Chile's. In 2009, the Chilean economy is now expected to grow by only 2.6% (as opposed to the 3.9% originally predicted).

#### Industrial Output Falls

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¶7. (U) According to Chile's National Institute of Statistics (INE), the index for national industrial production fell 0.8% in October, despite expectations for 1.2% growth in that month. The drop was blamed on decreases in the production of copper, other metals, and chemicals.

#### Unemployment Decreases

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¶8. (U) The INE also reported the unemployment rate decreased to 7.5% for August-October 2008. This is lower (by two percentage points) than the same period in 2007. The rate in the previous trimester (July-September 2008) was 7.8%. This is the third consecutive trimester in which the unemployment rate has fallen. For the first time this year in Chile, employment grew at a faster rate than the workforce.

#### Rescue Package for Chilean Salmon Industry

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¶9. (U) On November 27, President Bachelet announced a \$120 million rescue package for the salmon industry. The industry has been hit hard by reduced demand resulting from the global financial crisis and continuing problems stemming from a virus attacking the salmon. The package will be applied mostly in loan guarantees to banks that lend to salmon producers from Chile's Economic Development Agency (Corfo).

#### Central Bank Injects More Liquidity

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¶10. (U) On November 25, the Central Bank provided another currency swap to maintain liquidity levels in the banking sector. The Bank offered \$500 million for 91 days. Banks opted to borrow only \$200 million at LIBOR + 120 basis points.

#### Banking Sector Remains Relatively Healthy

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¶11. (SBU) Embassy contacts at CorpBanca report the banking sector remains relatively healthy. CorpBanca confirmed several pieces of information the Embassy has heard from other sources in the industry: liquidity continues to be adequate thanks to ongoing Central Bank currency swaps, few international lines of credit have been cut, the sector has very little exposure to foreign-held debt, the industry remains well-regulated. CorpBanca added that banks are starting to see a significant deterioration in loan repayments, especially among lower income customers, as a result of the global economic turmoil.

SIMONS